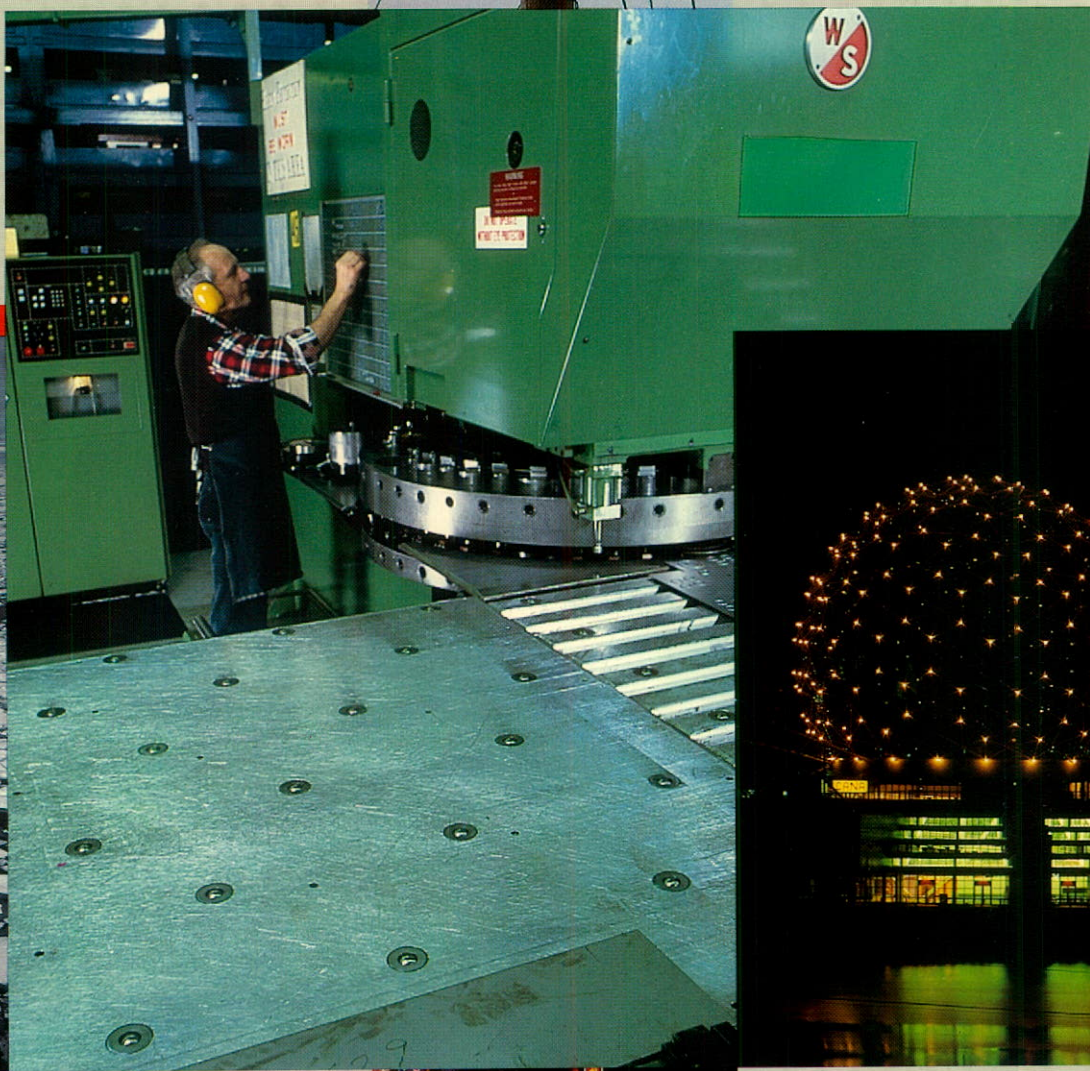
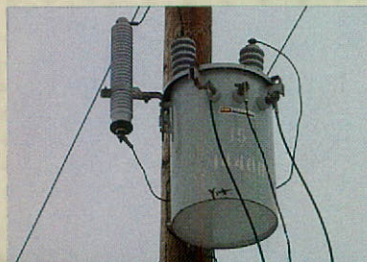


Annual Report

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Federal Pioneer Limited was first incorporated in Manitoba on January 15, 1946 and has since been continued under the Canada Business Corporations Act by Certificate of Continuance issued on January 27, 1978.

It is engaged in the manufacture, sale and service of electrical equipment—primarily that used in the distribution of electrical power. Major product lines include:

- Power and distribution transformers
- Circuit breakers
- Switchgear and low voltage distribution equipment
- Electric heating equipment

12 manufacturing plants and 18 sales offices are located across Canada. A subsidiary company operates a manufacturing facility and sales office in England and an associated company operates a manufacturing facility and sales office in Hong Kong. In total the Corporation employs approximately 2,500 people.

Cover

The cover photos depict different facets of the Corporation's business:

A Canadian icebreaker representing the Marine Market described on page six of this Report.

One of the Corporation's many modern computer controlled metal working machines.

Expo '86 in Vancouver—for which the Corporation has supplied electrical distribution equipment.

A pole top distribution transformer manufactured at one of the Corporation's transformer plants.

A busy night scene in Hong Kong, an important market for the English subsidiary's products and where a new associated company has been established.

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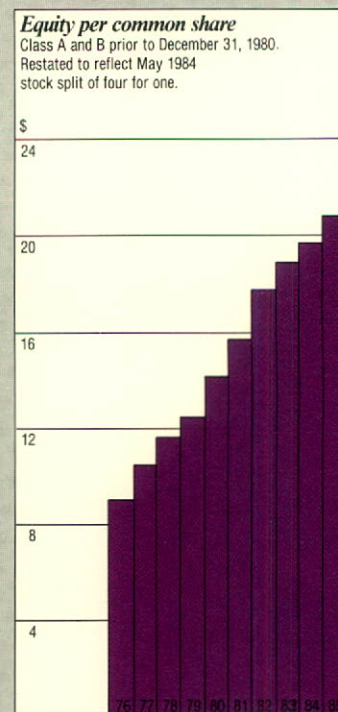
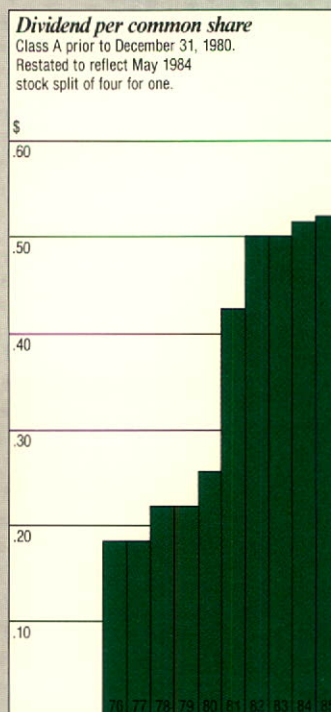
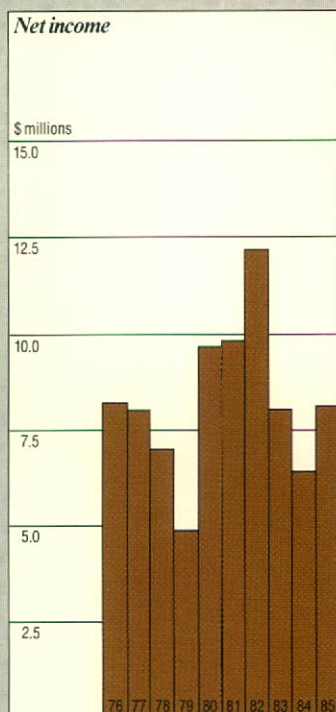
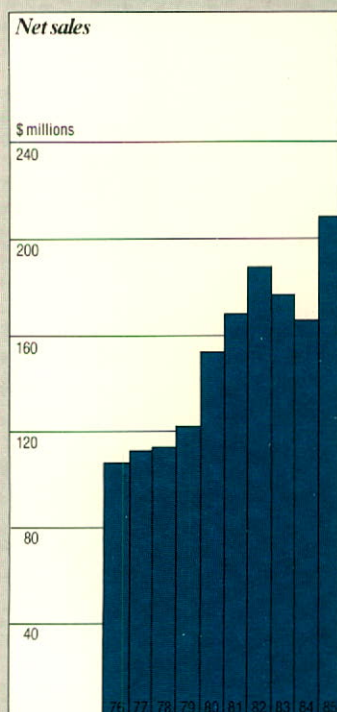
The Annual Meeting of Shareholders

The annual meeting of the shareholders of Federal Pioneer Limited will be held in the British Columbia Room of the Royal York hotel, 100 Front Street West,

Toronto, Ontario, Canada on Tuesday, the 29th day of April, 1986, at the hour of 11:00 o'clock in the forenoon (local time).

Financial Highlights

Year ended December 31	1985	1984	Change %
Net sales	\$209,279,118	\$166,108,971	+ 26.0
Income before income taxes	12,166,791	9,086,185	+ 33.9
Net income for the year	8,074,989	6,358,864	+ 27.0
Net income as a percentage of net sales	3.9%	3.8%	+ 0.8
Earnings per share	1.64	1.29	+ 27.0
Dividends declared	2,556,526	2,531,944	+ 1.0
Purchases of property, plant and equipment	3,946,236	3,436,076	+ 14.8
Depreciation and amortization provided for the year	3,294,555	3,187,837	+ 3.3
Working capital at end of year	80,626,568	76,589,728	+ 5.3
Shareholders' equity at end of year	102,202,002	96,606,967	+ 5.8
Equity per share at end of year	20.79	19.65	+ 5.8



Report to the Shareholders

The year 1985 was one of substantial recovery for Federal Pioneer. For the first time sales revenue exceeded \$200 million and set a new record at \$209 million. All segments of the business participated in this improvement to varying degrees. The largest growth rate occurred in sales to electrical utilities but sales into residential, commercial and industrial markets were also considerably stronger than in the previous year. The level of securements improved throughout the period and continues to support the higher sales volume.

Following the curtailment of capital expenditures by most Canadian electrical utilities in 1984, the past year marked a major reversal of this policy. Most utilities embarked on programmes to upgrade and expand their distribution networks resulting in a greatly increased demand for distribution transformers. During the year the factories manufacturing these products have been operating at or near their capacity. Since these utilities already had in place surplus generating capacity it was not necessary for them to increase their transmission systems, consequently, the demand for large power transformers continued to be depressed. There is now some evidence that this situation may change in 1986. With the improved level of capital investment in Canada, there has been a corresponding improvement in the sales of the Corporation's products to the industrial and commercial markets. In addition there was a marked improvement in residential housing construction compared to the previous year which resulted in increased sales of electrical service equipment and heating products to this market segment.

Despite this improvement in the market demand, prices generally remained under pressure as industry capacity continued to be under utilized. Strict expense controls have remained in effect throughout the year to help offset this condition.

Additions to fixed assets amounted to \$3.9 million which exceeded the \$3.3 million set aside for depreciation. Major additions included automated machinery for the production of transformers, numerically controlled metal stamping equipment, automatic assembly machines, moulding equipment and improvements to computer business systems installations.

There has been a continuing emphasis on product research and development. During the year new product introductions included additions to the existing range of electronic relays for the protection of electrical systems, a range

of compact low voltage power air circuit breakers, a variety of ground fault protective devices and a range of fusible panel mounted switches. The Corporation has allocated an increased expenditure for research and development activities in the current year. Additional staff has been recruited and an ambitious programme for continued product development and improvement is in place.

The employee participation plan instituted in 1984, under the direction of the Vice-President—Corporate Quality Assurance, has been further strengthened during the current year. This plan involves employees at various levels of responsibility and encourages direct participation in decisions relative to product enhancement and manufacturing efficiencies.

Several hundred employees are now actively engaged in this programme with encouraging results.

Seven union contracts were concluded during the year. Each of these was for a two year term and at settlement levels considered satisfactory. There were no work stoppages and management has continued to keep employees informed of the need for continued restraint under present economic conditions.

The year 1985 was one of continued growth in both sales and profit for the English subsidiary. This unit has introduced several new products which have received excellent market acceptance. It has also strengthened its position with key electrical distributors. Export sales continued to contribute to the success of this unit.

In October 1985, an associated company was formed in Hong Kong for the manufacture of electrical distribution products to serve the market in that part of the world. This new venture is owned, 44% by your Corporation with the balance by Supremetech Engineering Co. Ltd. of Hong Kong. The new company manufactures switches, panelboards, switchboards and bus duct and is named Fed-Supremetech Limited. It buys key components and receives technical support from Federal Electric Limited, the Corporation's English subsidiary.

Another undertaking during the year was the establishment in Canada of a field service organization to serve the Ontario market. This is the forerunner of a national network of field service centres to serve the Canadian market.



A. G. Daley



W. B. Korb

Several more similar facilities are planned to be in place during 1986. These centres provide on-site service for the maintenance of the Corporation's products at its customers' premises and also training courses for electrical maintenance personnel employed by major industrial accounts.

Once again some of the major projects awarded to Federal Pioneer this year are of particular interest. Elsewhere in this report there is a description of the success achieved in marine switchgear applications. In addition to supplying equipment for Canada's Navaid ships other marine applications in the United States were fitted with the Corporation's products. Somewhat similar products were also supplied for dockside installations in

Esquimalt, British Columbia to provide large blocks of on-shore power to vessels.

There has been continuing expansion in the petroleum industry. Major contracts include switchgear for an expanded oil-sands recovery project at Mildred Lake, Alberta and a quantity of pumping station control centres for oil pipeline applications in western Canada. Hospital construction provided an improved market and contracts were secured for many such installations including a major hospital project in Hamilton, Ontario. The single largest contract secured during the period was for the supply of HVDC converter transformers for the extension of the Pacific Intertie transmission line on the west coast of the United States which will feed power to the city of Los Angeles. These transformers will be built in the Winnipeg plant and shipment is scheduled to commence early in 1987. Another important market has been the supply of electrical equipment for use in the construction of major computer installations for financial institutions. These facilities require a high level of reliability and based on past performance, the Corporation has continued to obtain a large share of this rapidly growing business. In the export field a major contract was received from the Egyptian Electricity Authority for the supply of large power transformers to expand its transmission system. Shipments to the United States included medium voltage switchgear assemblies for major industrial and electrical utility customers.

The Corporation entered 1986 with a substantially increased backlog of orders and it is believed that market conditions will show some continued improvement throughout the year. Despite the increase in sales volume during 1985 the Corporation still has the ability to increase its output without a major investment in new plant facilities.

The Directors wish to express their sincere appreciation to Kenneth J. Thompson who retires on April 1st, 1986. Ken Thompson was appointed Vice-President of Sales in 1967 and Senior Vice-President—Marketing in 1981. He has served the Corporation with dedication and distinction for over thirty-three years. Other changes in the officers are detailed elsewhere in this Report.

In February 1986 the Corporation informed its shareholders that it had been advised by Reliance Electric Company that it was negotiating for the sale of certain domestic U.S.A. assets and businesses of Federal Pacific Electric Company and is seeking a buyer for the remaining units of Federal Pacific Electric which would include its majority interest in Federal Pioneer Limited.

The results achieved during 1985 are an excellent testimony to the support and dedication provided by the employees at all levels both domestically and overseas. The Directors recognize the worthwhile contribution that each of these employees has made and express their sincere appreciation.

Submitted on behalf of the Board of Directors.

William B. Korb
Chairman of the Board

A. Gordon Daley
President and
Chief Executive Officer

Toronto
February 20, 1986

Changes in Officers

In 1986 will see some major changes in the Corporation's senior staff within the Marketing and Sales group. After more than thirty-three years of service with the Corporation Mr. K. J. Thompson, the Senior Vice-President—Marketing retired as of April 1, 1986.

Mr. Thompson started his career in 1952 with a predecessor company Cemco Electrical Manufacturing Company Limited of Vancouver. He spent a short time as a technical sales representative covering the Prairie provinces from his base in Edmonton, Alberta. The Corporation's products at that time consisted of switchboards, panelboards and unit substations in the low voltage and medium voltage class, which were sold to contractors, industrial accounts and electrical utilities. In 1954 Mr. Thompson was appointed Sales Manager of Cemco, as it was known, and returned to Vancouver, B.C., the headquarters of that company, which at that time had two plants, one in Vancouver, B.C. and the other in Granby, P.Q. In 1958 Cemco was purchased by Federal Pacific Electric of Newark, New Jersey which had its Canadian headquarters in Toronto and in 1960 Mr. Thompson moved to Toronto as Ontario District Sales Manager, a position he held for six years.

Early in 1967 Mr. Thompson was appointed to the position of Vice-President Marketing to head up all marketing and sales activities for the Distribution Division of FPE Pioneer Electric Limited, the former name of Federal Pioneer Limited. 1970 saw the merging of the Distribution and Transformer Divisions of the Corporation's sales and marketing departments and Mr. Thompson took over the total marketing and sales responsibilities for the Corporation—which position he held until his retirement. He saw the Corporation grow from a small start with sales revenue of some six million dollars in 1958 to Federal Pioneer Limited's current

position with sales revenue in excess of two hundred million dollars.

Over his very successful career Mr. Thompson has been active with many industry associations. He is a past Chairman of the Manufacturers Council and a Director of the Canadian Home Builders Association, formerly the Housing & Urban Development Association. He is retiring from the Electrical and Electronic Manufacturers Association of Canada (EEMAC) where he has served as a Director for many years and was most recently Chairman of the International Trade Division. While helping to build the business, Mr. Thompson has had close liaison with

members in such industry associations as The Canadian Electrical Association, The Canadian Electrical Distributors Association and The Electrical Contractors Associations across the country.

While he hopes not to disappear from the industry altogether, Mr. Thompson does plan to pursue his prime hobbies of boating and woodworking more ardently in his retirement.



K. J. Thompson

Mr. D. V. Baldwin who has been appointed to the position of Senior Vice-President Marketing upon Mr. K. J. Thompson's retirement received his formal education in London, England.

In 1967, after a short time in Canada, he joined Pioneer Electric Limited, one of the founding companies of Federal Pioneer Limited, as Marketing Supervisor.

Mr. Baldwin held a number of managerial positions in the Corporation prior to his present appointment. He served as Product Manager for the Apparatus Group before being appointed District Sales Manager located in Winnipeg. After some seven years Mr. Baldwin was promoted to the position of Manager of Marketing Services and appointed a Vice-President in 1981. During 1983 he was appointed to a new position of Vice-President and General Sales Manager, which position he has held until this most recent appointment.



I. K. P. Ross

Mr. I. K. P. Ross joined the Company in England in 1979 at which time he was appointed Managing Director of the English subsidiary, Federal Electric Limited, based in Wolverhampton. On January 1, 1986 he was relocated to the Corporation's Head Office in Toronto and was appointed Vice-President—Business Development effective from April 1, 1986. Mr. Ross obtained an Honours Engineering Degree from Cambridge University and is a member of the Institution of Electrical Engineers and the Institute of Cost and Management Accountants. Prior to joining the Federal Pioneer Group in 1979 he had completed an engineering apprenticeship and held various management positions in the electrical, electronic and mechanical engineering industries in England.

Mr. P. T. Wicks, who was appointed Vice-President—National Sales Manager to replace Mr. Baldwin, joined the Company in 1959. Upon completion of his formal education he served an apprenticeship programme with an English electrical manufacturer following which he moved to the United States under a one year Foreign Student Programme with a large U.S. electrical manufacturer. He emigrated to Canada in 1954 and was employed by other companies in the electrical industry until joining Federal Pioneer in 1959. He has served as a Sales Representative, Product Manager and District Sales Manager and in 1984 was appointed Manager of Marketing Services with responsibility for all of the marketing activities of the Company.



D. V. Baldwin



P. T. Wicks

Marine Market

On December 6, 1985 the unusual side-launching technique used by Collingwood Shipyards marked another step in Federal Pioneer's thrust to increase sales of electrical equipment for marine use. Hull No. 230, launched that day, is one of four Navaid 1100 icebreaker vessels being built for the Canadian Coast Guard which will use Federal Pioneer marine electrical switchgear. The type 1100 icebreakers are to be used for navigational work on Canada's east and west coasts. These ships are equipped with twin electric motor drives supplied from generators having 6300 kilowatts of available power. The equipment provided by Federal Pioneer includes the main 600 volt switchgear featuring 4000 ampere H-3 circuit breakers as well as emergency and auxiliary switchboards. Federal Pioneer has had over 40 years of experience in supplying marine type circuit breakers, but in recent years off-shore competitors have tended to dominate this specialized field. By having a Federal Pioneer team assigned to this order, the special problems of design, standards, contract negotiations and delivery scheduling were addressed and the products were delivered during 1985.

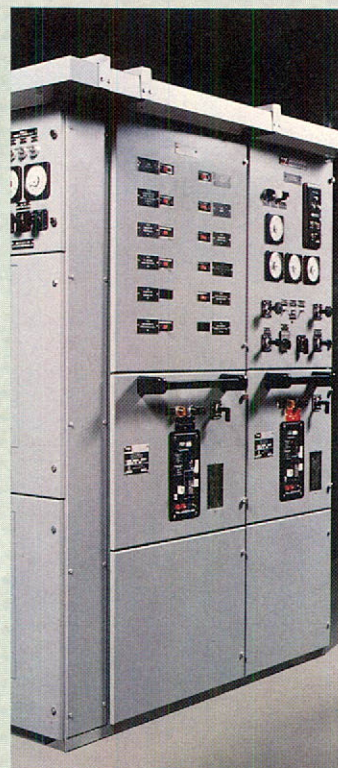
In addition to the vessel being built by Canadian Shipbuilding and Engineering Limited at Collingwood, Ontario, marine switchgear was supplied for similar Navaid 1100 vessels to

Halifax-Dartmouth Industries Limited in Halifax, Nova Scotia and Versatile Pacific Incorporated in Vancouver, British Columbia. The architects and designers of the vessels were St. John Marine Consultants Limited and the Federal Pioneer design and sales team worked closely with the Canadian manufacturer of the propulsion drive to ensure that the electrical equipment was fully coordinated.

This new approach to the marine business proved very successful in 1985 and orders were also received to supply switchgear for a new Coast Guard type 1200 Navaid icebreaker vessel

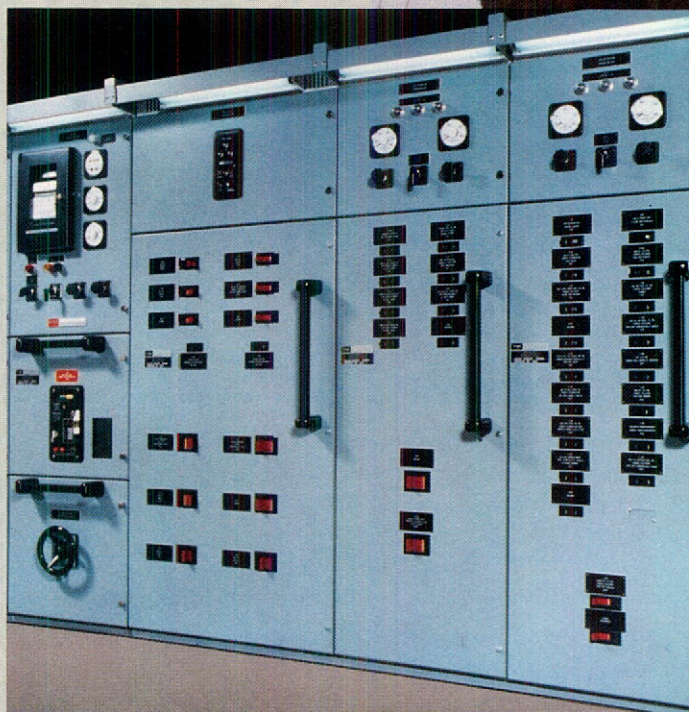
being built by Versatile Pacific Incorporated in Vancouver. In keeping with its modern design this powerful new vessel uses electric drives and will have 15,000 kilowatts of power available with the generator output designed for 4,160 volts. Federal Pioneer will supply the 4,160 volt and 600 volt switchgear as well as four special 4,000 kVA converter transformers to feed the twin cycloconverter adjustable AC drives.

The Federal Pioneer design-sales team assembled to address the marine market found other important opportunities in the marine business in Canada. Dealings with the Canadian



Emergency distribution board for installation on board a type 1100 icebreaker being built for the Canadian Coast Guard. (Above)

Switchboard for installation on board a type 1100 icebreaker being built for the Canadian Coast Guard. (Below)



Coast Guard, the Department of National Defence and other government departments have provided several such opportunities. The Canadian Coast Guard is actively considering a new Polar 8 class icebreaker vessel to be used to protect Canadian sovereignty in the Arctic. This vessel would also require significant electrical switchgear and related equipment. The Department of National Defence is considering expenditures on the refitting and reconditioning of their fleet of combat vessels. They have expressed interest in Federal Pioneer equipment and consideration is being given to the development of various designs

for use in these applications. The Department of Fisheries is considering a major capital expenditure program to expand and enhance their fleet of research and patrol vessels.

In addition to the onboard equipment required for ships, Federal Pioneer supplied other marine related equipment in 1985. The shore-to-ship power sub-stations built for the Esquimalt Canadian Forces Base in British Columbia is representative of these types of projects. This is dockside switchgear consisting of special receptacles and switchgear components mounted in a welded aluminum enclosure to provide a standard

electrical hook-up for all classes of NATO vessels.

The special needs of the shipbuilding industry have caused your Company to develop certain products that afterwards have found application elsewhere. For example, the marine market required compact switchgear to meet the critical space restrictions found on board a ship and as a result Federal Pioneer developed the 14" H-3 circuit breaker and a new design of compact switchgear utilizing this breaker. This compact switchgear, using the newly designed H-3 circuit breakers, has found application in the highly competitive industrial and commercial switch-

gear market in Canada. Your Company has also been required to manufacture switchgear to meet the strict requirements of Lloyds of London. This means that Federal Pioneer now has a range of switchgear that can be applied to such industries as off-shore oil drilling. This expertise and the experience with the design-sales team approach will help to serve other new markets including international markets. In the United States, Federal Pioneer has supplied original equipment manufacturers who have considerable experience in the field of marine switchgear. These original equipment manufacturers are now incorporating type H-3 Canadian made and designed low voltage power circuit breakers for use in equipment for American built ships. Among recent projects were breakers for three tankers built at New Orleans for the Exxon Corporation.

Also at the same yards, circuit breakers were supplied for five fleet support tankers for the U.S. Navy. At a San Diego, California shipyard a project for the U.S. Navy for a hospital ship is using the same type of Canadian designed and built circuit breakers.

The shipbuilding industry in Canada has important economic significance for several regions of Canada. With the high content of Canadian manufacture Federal Pioneer is in a position to provide modern marine equipment for commercial, government and defence needs.



Hull No. 230—a Navaid 1100 icebreaker built at Collingwood, Ontario for the Canadian Coast Guard. (Left)

The sideways launching at Collingwood, Ontario of Hull No. 230—a Navaid 1100 icebreaker for the Canadian Coast Guard. (Below)



International Market

Export Sales from Canada

Export sales from Canada in 1985 amounted to just under 10% of the total sales and new orders secured showed appreciable growth. Whilst the largest growth was in the U.S., the export business is by no means restricted to that market and orders were secured from all over the world. Your Company was proud to receive an order to supply the electrical distribution equipment for the new Canadian Embassy now being built in Beijing, China. Another large overseas order received in 1985 was for the supply of medium voltage switchgear and transformers for a fertilizer plant in Bangladesh and this order provided Federal Pioneer with its first opportunity to work with a major Japanese engineering and contracting group. During 1985 shipments of 15kV motor starter equipment to a copper mine high in the Andes Mountains in Peru and generator transformers to a Government Agency in Kenya were completed. Transformers were also shipped to Haiti and the new Central Bank Building in Barbados was equipped in part with Federal Pioneer equipment. A prestigious hotel in Bermuda selected Federal Pioneer equipment for its expansion and renovations and a paper mill in Chile was supplied with electrical equipment manufactured in the Bramalea, Ontario and Richmond, B.C. plants. In the field of extra high voltage transformers a large order was received for the supply of four single phase auto transformers rated at 167 million volt

amperes for the Egyptian Electricity Authority.

The U.S. market is of growing importance to Federal Pioneer and in 1985 significant new orders were received from customers in the U.S.A. and your Company is increasing its activities in this market. Of particular note was a very large order for the supply of seven high voltage converter transformers each rated at 204 million volt amperes to form part of a 135 kilometer transmission system linking the City of Los Angeles in California with Celilo in Oregon.

The Winnipeg plant supplied a 25 MVA transformer with on load tap changer to a large New York

electrical utility and two 15/20 MVA power transformers to southern California. The Quebec switchgear plant manufactured 35kV metal enclosed switchgear for delivery to Maine and a 7.5 MVA transformer was shipped from the Horner Avenue plant in Toronto to the electrical authority in Hawaii. A large order for 12.5kV metalclad switchgear together with a power transformer was also shipped to a manufacturing plant in Chicago.

Federal Pioneer is increasingly active in promoting the sale of its products in export markets. The help that your Company has received from the Canadian Government in securing

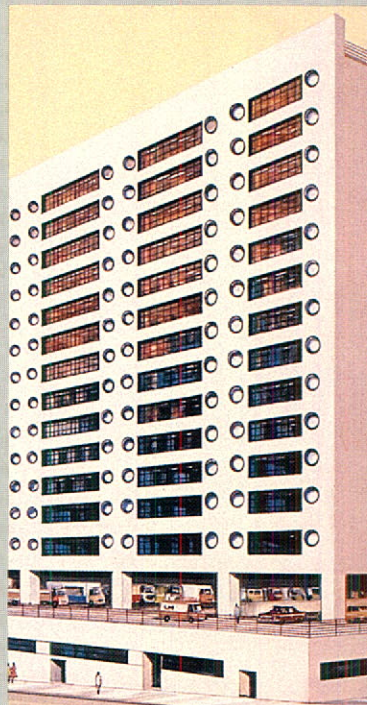
export orders—especially through the Trade Counsellors and such Agencies as the Canadian International Development Agency and the Export Development Corporation—is gratefully acknowledged.

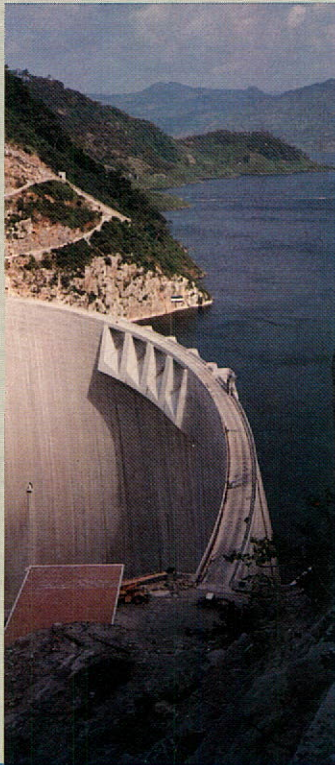
Associated Company in Hong Kong

In October 1985 Federal Pioneer took an important step with the subscription of \$393,000 for 44% of the share capital of a newly formed company in Hong Kong named Fed-Supremetech Limited. This Hong Kong company owns factory space in a multi-tenant building at Shatin in the New Territories of Hong Kong and is engaged in the

High-rise towers in Shatin, New Territories, Hong Kong containing Federal Electric distribution equipment. (Right)

A view of the multi-tenant factory in Shatin, Hong Kong three units of which are owned and occupied by Fed-Supremetech Limited, an associated company. (Below)





manufacture and assembly of electrical distribution equipment. Its market is Hong Kong, Macao and the People's Republic of China. The majority shareholder in the new venture is Supreme-tech Engineering Co. Ltd., a Hong Kong based and owned company formed in 1979 that has been engaged in the sale of electrical equipment and has represented the English subsidiary, Federal Electric Limited, in Hong Kong since 1981. Fed-Supremetech will be receiving technical support and buying key components from Federal Electric Limited in England. The new associated company in Hong Kong represents a new phase for Federal

Pioneer—it is a first step into the Far East and places your Company closer to the huge potential market in the People's Republic of China and in addition it is the first investment where the ultimate control does not rest with Federal Pioneer but involves instead a 'partnership' with residents of the local country.

Subsidiary in England

Federal Electric's results continue to show improvement and profits increased almost 40% over those of 1984. This was achieved largely as a result of the Company's better performance in the U.K. domestic market where increased sales representation and product

enhancements have enabled Federal Electric to capture a larger share of that market.

During 1985 a new single phase residential Stablok panel of advanced modern design was successfully launched. This is the Company's first product specifically created for the U.K. residential market.

The Company remains very active in world markets and continues to explore new markets. Despite intense international competition Federal Electric has been successful in obtaining orders for low voltage distribution equipment to be used in Government funded housing developments in the New Territories of Hong Kong.

Federal Electric has continued to invest in product development and equipment and launched two new products in early 1986—a new compact panelboard, the PB25, to complement the very successful PB40 range introduced some three years ago and a new 20 amp Twin Break switch and Switch Fuse to augment the 30A, 63A and 100A units which were launched in 1984. These products were exhibited in February 1986 at the Biennial International Electrex Exhibition held in Birmingham, England.

In January 1986 I. K. P. Ross, the Managing Director of Federal Electric Limited, transferred to the Head Office of the Canadian Company in Toronto and B. W. Peter, who previously held the position of Marketing Director, has been appointed in his place.



The dam of the El Cajon Hydro Electric project in Honduras which is representative of the type of hydro-electric projects for which Federal Pioneer has exported electrical equipment. (Above)

A model of the proposed new Canadian Embassy in Beijing, China, designed by Dubois Plumb and Associates of Toronto. (Below)



Consolidated Statement of Income and Retained Earnings

Year ended December 31	1985	1984
Net sales	\$209,279,118	\$166,108,971
Income before the undernoted items	\$ 13,903,795	\$ 10,410,179
Add: Interest income	1,822,096	2,385,901
	15,725,891	12,796,080
Deduct:		
Depreciation and amortization	3,294,555	3,187,837
Interest on long-term debt	209,458	440,593
Other interest	55,087	81,465
	3,559,100	3,709,895
Income before income taxes	12,166,791	9,086,185
Income taxes (Note 9)	4,091,802	2,727,321
Net income for the year	8,074,989	6,358,864
Retained earnings at beginning of year	89,328,551	85,501,631
	97,403,540	91,860,495
Deduct:		
Dividends declared—\$0.52 per share (1984—\$0.515)	2,556,526	2,531,944
Retained earnings at end of year	\$ 94,847,014	\$ 89,328,551
Earnings per share	\$1.64	\$1.29

Auditors' Report

To the Shareholders of Federal Pioneer Limited:

We have examined the consolidated balance sheet of Federal Pioneer Limited as at December 31, 1985 and the consolidated statements of income and retained earnings and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and its cash flow for the year then ended in accordance with

generally accepted accounting principles, which, except for the change (with which we concur) in the method of accounting for investment tax credits as explained in Note 2 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

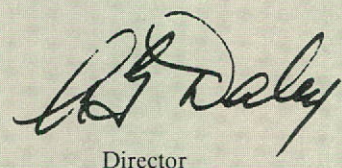
Pricewaterhouse
Chartered Accountants

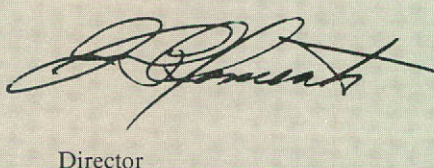
Toronto, Ontario
January 31, 1986

Consolidated Balance Sheet

December 31	1985	1984
Assets		
Current assets:		
Cash	\$ 4,655,433	\$ 2,038,180
Short-term deposits	16,000,000	22,000,000
Accounts receivable	31,534,141	27,467,706
Inventories (Note 3)	54,383,592	50,294,547
Prepaid expenses and deposits	518,154	680,839
	107,091,320	102,481,272
Investment in associated company (Note 4)	392,637	—
Fixed assets (Note 5)	23,141,263	21,885,703
Goodwill	1,268,661	1,347,953
	<u>\$131,893,881</u>	<u>\$125,714,928</u>
Liabilities		
Current liabilities:		
Bank indebtedness (Note 6)	\$ 257,460	\$ 250,230
Accounts payable and accrued liabilities	22,369,672	18,972,724
Current portion of long-term debt	51,290	3,297,216
Income and other taxes payable	3,147,199	2,732,243
Dividend payable	639,131	639,131
	26,464,752	25,891,544
Long-term debt (Note 7)	1,786,127	1,947,417
Deferred income taxes	1,441,000	1,269,000
Shareholders' Equity		
Share capital (Note 8)	7,095,532	7,095,532
Retained earnings	94,847,014	89,328,551
Cumulative translation adjustment account	259,456	182,884
	102,202,002	96,606,967
	<u>\$131,893,881</u>	<u>\$125,714,928</u>
Contingent liabilities (Note 14)		

The financial statements have been
approved by the Board of Directors


Director


Director

Consolidated Statement of Cash Flow

Year ended December 31	1985	1984
Cash flow provided by (used in) operations		
Net income.....	\$ 8,074,989	\$ 6,358,864
Charges/(income) included in net income but not affecting cash flow:		
Depreciation and amortization.....	3,294,555	3,187,837
Deferred income taxes.....	172,000	(173,000)
	11,541,544	9,373,701
Cash flow released from (used to provide) working capital		
Accounts receivable.....	(4,066,435)	3,131,824
Inventories.....	(4,089,045)	(4,827,620)
Prepaid expenses and deposits.....	162,685	(87,865)
Accounts payable and accrued liabilities.....	3,396,948	(1,233,537)
Income and other taxes payable.....	414,956	474,380
	(4,180,891)	(2,542,818)
Cash flow provided by (used in) investment activities		
Purchases of buildings, machinery and equipment.....	(3,946,236)	(3,436,076)
Disposals of machinery and equipment.....	55,104	23,012
Effect of adjustment for the translation of foreign currencies.....	(503,119)	430,161
Investment in associated company.....	(392,637)	—
	(4,786,888)	(2,982,903)
Cash flow provided by (used in) financing activities		
Repayment of long-term debt.....	(3,407,216)	(561,477)
Payment of dividends.....	(2,556,526)	(2,507,363)
	(5,963,742)	(3,068,840)
Net cash flow during the year.....	(3,389,977)	779,140
Cash position at beginning of year.....	23,787,950	23,008,810
Cash position at end of year.....	\$ 20,397,973	\$ 23,787,950
Cash position at end of year consists of:		
Cash.....	\$ 4,655,433	\$ 2,038,180
Short-term deposits.....	16,000,000	22,000,000
Bank indebtedness.....	(257,460)	(250,230)
	\$ 20,397,973	\$ 23,787,950

Notes to Consolidated Financial Statements

December 31, 1985

1. Nature of business: The Corporation is engaged in the manufacture, sale and service of equipment used in the control and distribution of electrical energy. The directors have determined that such business represents a single class of business. The sales and assets of the English subsidiary represent less than 10% of those of the Group. Export sales in 1985 from Canadian operations accounted for less than 10% of the total sales.

2. Significant accounting policies: The accounting policies of the Corporation are in accordance with generally accepted accounting principles in Canada. The more significant policies are stated below:

Basis of consolidation—

The consolidated financial statements include the financial statements of Federal Pioneer Limited and both of its subsidiary companies. The investment in the associated company is accounted for using the equity method based on its financial statements at September 30 of each year.

Translation of foreign currencies—

Transactions in foreign currencies are translated at the approximate rate of exchange at the time of the transaction. Assets and liabilities are translated at the exchange rates prevailing at the balance sheet date.

Translation gains and losses on consolidation of the foreign subsidiary are included in the cumulative translation adjustment account under Shareholders' Equity. Other exchange gains and losses are included in income.

Inventories—

Raw material inventories are valued at the lower of cost and replacement cost while work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined generally by the first-in, first-out (FIFO) method but with certain inventories being valued on an 'average' basis.

Fixed assets—

Fixed assets are stated at cost. Expenditures on major replacements, extensions and improvements are capitalized. The cost of maintenance, repairs and renewals or replacements other than those of a major nature are charged to expense as incurred. The Corporation generally provides for depreciation using the diminishing balance method applying rates which will reduce the original cost to the estimated residual value over the useful lives of the assets. The annual rates used are 5%–10% for buildings, 20% for machinery and equipment and 30% for computer equipment. Moulds, jigs and dies are fully depreciated in the year in which they are first used.

Goodwill—

Goodwill, which represents the excess of cost of shares of subsidiaries over net book value at dates of acquisition, is being amortized on a straight-line basis over a period of twenty years commencing in 1982.

Income taxes and investment tax credits—

Income taxes are accounted for on the tax allocation basis. The major portion of accumulated deferred income taxes arises from differences between the amounts of depreciation claimed for income tax purposes and those recorded in the financial statements.

Effective January 1, 1985 the Corporation changed its method of accounting for investment tax credits to the cost reduction method in order to comply with recommendation 3805 of the Canadian Institute of Chartered Accountants. As a result of this change,

investment tax credits arising from the acquisition of fixed assets are deferred and are amortized on the same basis as the related assets. Those investment tax credits arising from current expenditures are recorded as a reduction in the charge for income taxes in the same year as the relevant expenditures. This change was made prospectively and the effect on the profits for 1985 was not material.

3. Inventories:

December 31	1985	1984
Raw material and work in process	\$43,681,057	\$40,687,628
Finished goods	11,202,395	10,579,128
	54,883,452	51,266,756
Less: Progress payments	(499,860)	(972,209)
	<u>\$54,383,592</u>	<u>\$50,294,547</u>

4. Investment in associated company: In October 1985 the Corporation subscribed for 44% of the share capital of Fed-Supremetech Limited, a company newly incorporated in Hong Kong and having a year end of September 30.

5. Fixed assets:

December 31	1985	1984
Cost—		
Land	\$ 1,463,495	\$ 1,463,495
Buildings	19,242,933	18,935,945
Machinery and equipment	34,095,084	29,328,045
	<u>54,801,512</u>	<u>49,727,485</u>
Accumulated depreciation—		
Buildings	8,083,509	7,345,614
Machinery and equipment	23,576,740	20,496,168
	<u>31,660,249</u>	<u>27,841,782</u>
Net book value—		
Land	1,463,495	1,463,495
Buildings	11,159,424	11,590,331
Machinery and equipment	10,518,344	8,831,877
	<u>\$23,141,263</u>	<u>\$21,885,703</u>

6. Bank indebtedness: Bank indebtedness of the English subsidiary amounting to \$257,460 (1984—\$250,230) is secured by a floating charge on all of its assets.

7. Long-term debt:

December 31	1985	1984
6¾% secured sinking fund debentures, Series A, repayable at maturity on April 15, 1987	\$ 1,329,000	\$ 1,439,000
10% mortgage loan repayable in monthly instalments maturing in 1990	403,809	428,397
8.46% mortgage loan repayable in four equal instalments in 1985	—	3,250,000
6¾% mortgage loan repayable in monthly instalments maturing in 1989	104,608	127,236
	<u>1,837,417</u>	<u>5,244,633</u>
Amount payable within one year included in current liabilities	51,290	3,297,216
Amount payable after one year	<u>\$ 1,786,127</u>	<u>\$ 1,947,417</u>

Long-term debt is required to be repaid as follows:

1986	\$ 51,290
1987	1,384,728
1988	60,565
1989	63,282
1990	277,552
	<u>\$1,837,417</u>

The 6¾% secured sinking fund debentures, Series A, are secured by a Deed of Trust and Mortgage which, inter alia, provides for dividend restrictions under certain conditions. The financial position of the Corporation is such that these restrictions are not applicable at this time. All of the sinking fund requirements up to maturity have been fully satisfied by the purchase of debentures in the open market and their delivery to the Trustee for cancellation.

8. Share capital: The Corporation is authorized to issue an unlimited number of common shares without nominal or par value. At December 31, 1985 there were outstanding 4,916,396 common shares without nominal or par value with a stated value of \$7,095,532 and there were no changes during the year.

9. Income taxes:

Year ended December 31	1985	1984
Current	\$3,919,802	\$2,900,321
Deferred	172,000	(173,000)
	<u>\$4,091,802</u>	<u>\$2,727,321</u>

The Corporation's effective income tax rate is made up as follows:

Year ended December 31	1985	1984
	%	%
Combined basic federal and provincial income tax rate	48.1	49.1
Federal income tax surcharge	0.8	—
Inventory allowance	(5.9)	(7.0)
Manufacturing and processing profits deduction	(5.5)	(5.7)
Research and development allowance	(2.0)	(3.2)
Investment tax credit	(0.2)	(0.6)
Miscellaneous	(1.7)	(2.6)
	<u>33.6</u>	<u>30.0</u>

Deferred income taxes in the balance sheet include \$183,000 of deferred investment tax credits relating to the acquisition of fixed assets.

Tax losses brought forward from prior years amounting to \$3,472,000 (£1,719,000) are available to reduce taxes payable on future operating profits of the English subsidiary.

10. Research and development costs: Research and development costs incurred during the year and charged to expense amounted to \$2,379,000 (1984—\$2,618,000). No costs qualified for deferral.

11. Long-term leases: The Corporation leases plants, warehouses and sales offices in Canada and England. All of these leases are treated as operating leases with the rents charged to operations in the year to which they relate.

The longest term of any lease expires in 2002. The aggregate rentals payable for the unexpired terms of these leases are as under:

1986	\$ 399,000
1987	366,000
1988	355,000
1989	322,000
1990	275,000
thereafter	1,726,000
	<u>\$3,443,000</u>

12. Unfunded pension costs: Current service costs of the Corporation's various pension plans are funded and charged to operations as they accrue. Based upon estimates by independent actuaries, unfunded past service pension costs at December 31, 1985 amounted to \$1,254,000 (1984—\$1,284,000) of which approximately \$690,000 (1984—\$679,000) related to vested past service benefits. To satisfy the total unfunded liability, estimated annual payments of \$140,000 will be charged to future operations.

13. Capital commitments: The Corporation has entered into capital commitments as at December 31, 1985 for expenditures on machinery and moulds amounting to \$894,000 (1984—\$960,000).

14. Contingent liabilities: In 1976 an accidental spill of transformer oil containing polychlorinated biphenyls (PCB's) occurred at the Corporation's Regina plant. The Corporation, in co-operation with environmental authorities, has taken steps to contain the spill and is monitoring the results thereof. At this time the need for, or nature of, any further action or cost which might be required in the longer term cannot be determined.

In late 1985 the Corporation became aware of some PCB contamination of certain areas of its transformer plant at Horner Avenue, Toronto. The appropriate Government Agencies were advised and tests are being undertaken to establish the extent of the contamination. These tests are incomplete and further analysis and studies are required before it is possible to determine the nature, extent and cost of any required remedial measures.

15. Related party transactions: The parent company, Federal Pacific Electric Company of Raleigh, North Carolina, U.S.A. is the registered holder of 59.3% of the issued and outstanding common shares of the Corporation. The Corporation pays a royalty to the parent for the use of patents, trademarks and the supply of technical knowhow. The royalty for the year 1985 amounted to \$467,000 (1984—\$490,000). The Corporation has also entered into a Management Services Agreement with Reliance Electric Company of Cleveland, Ohio, U.S.A., the controlling shareholder of Federal Pacific Electric Company, for the supply of certain managerial services and in 1985 incurred costs under the terms of this Agreement amounting to \$354,000 (1984—\$145,000). In addition the Corporation supplies products to the parent and purchases components from it. The value of such purchases and sales is less than 10% of the aggregate. Accounts receivable at December 31, 1985 includes \$36,000 (1984—\$610,000) due from affiliated or associated companies. Accounts payable and accrued liabilities at December 31, 1985 includes \$681,000 (1984—\$236,000) due to affiliated companies.

Five Year Summary

In thousands of dollars unless otherwise stated

Year ended December 31	1985	1984	1983	1982	1981
Net sales	\$209,279	\$166,109	\$177,132	\$188,134	\$169,515
Income before income taxes and extraordinary item	12,167	9,086	12,308	20,633	18,525
Income taxes	4,092	2,727	4,298	8,394	8,316
Income before extraordinary item	8,075	6,359	8,010	12,239	10,209
Net income for the year	8,075	6,359	8,010	12,239	9,831
Net income before extraordinary item as a percentage of net sales	3.9%	3.8%	4.5%	6.5%	6.0%
Earnings per share before extraordinary item in dollars	1.64	1.29	1.63	2.49	2.08
Dividends declared	2,557	2,532	2,458	2,458	2,089
Dividends per share in dollars	0.52	0.515	0.50	0.50	0.425
Property, plant and equipment —at cost	54,802	49,727	47,258	44,851	39,178
—net	23,141	21,886	21,895	22,028	19,010
Purchases of property, plant and equipment during the year	3,946	3,436	3,526	5,977	4,377
Depreciation and amortization provided for the year	3,295	3,188	3,327	2,995	2,676
Working capital at end of year	80,627	76,590	76,546	71,621	62,433
Long-term debt at end of year	1,786	1,947	5,763	6,446	3,696
Shareholders' equity at end of year	102,202	96,607	92,664	87,045	77,265
Number of shares outstanding at end of year in thousands	4,916	4,916	4,916	4,916	4,916
Equity per share at end of year in dollars	20.79	19.65	18.85	17.71	15.72

Restated to reflect May 1984 stock split of four for one.

Shareholder Information

Shareholders as at December 31	1985		1984	
	shareholders	shares held	shareholders	shares held
Residents of Canada	287	1,994,257	305	1,994,208
Residents of U.S.A.	9	*2,922,139	8	*2,922,138
Others	—	—	1	50
	296	4,916,396	314	4,916,396

*Includes 2,916,228 owned by the Parent Company, Federal Pacific Electric Company of Raleigh, N.C., U.S.A.

†Share Trading Summary

Year ended December 31	1985	1984
Volume of shares traded	304,175	228,869
Price range	\$20.50-\$29.00	\$17.125-\$21.25
Closing price at end of year	\$26.00	\$19.75

†Valuation Day share price

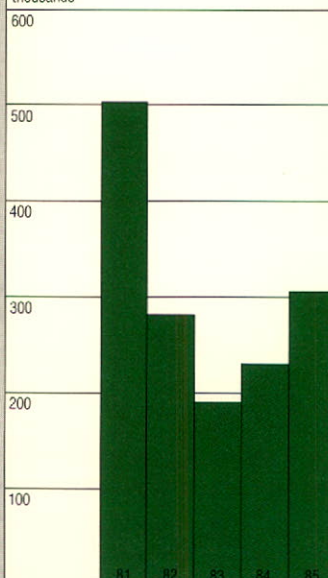
December 22, 1971 \$4.375

†All information relating to shares has been restated where applicable to reflect the four for one stock split made in May 1984.

Number of shares traded

Restated to reflect May 1984 stock split of four for one

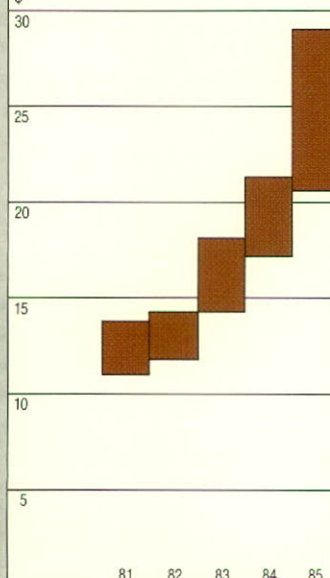
thousands



Share price range

Restated to reflect May 1984 stock split of four for one

\$



Directors

As at April 1, 1986

* **John B. Clements, Q.C.**
Toronto

Partner, Lash, Johnston
(barristers and solicitors)

†* **A. Gordon Daley**

Toronto
President and Chief Executive
Officer of the Corporation

†* **W. Douglas H. Gardiner**

Vancouver
Financial Consultant

† **William B. Korb**

Cleveland, Ohio, U.S.A.
An Operating Vice-President of
Reliance Electric Company

John C. Morley

Cleveland, Ohio, U.S.A.
President and Chief Executive
Officer of Reliance Electric
Company

* **Pauline Ouimet**

Montreal
President of Les Chefs
Volants Inc.

†* **Venceslas Sirois**

Toronto
Consultant

*Member of the Audit Committee

†Member of the Compensation Committee

Officers

As at April 1, 1986

William B. Korb

Chairman of the Board

A. Gordon Daley

President and Chief
Executive Officer

Douglas V. Baldwin

Senior Vice-President
—Marketing

Bernard J. Ferreira

Senior Vice-President
—Operations

Edward C. Markwick

Senior Vice-President Finance
and Secretary

Stanley M. Roberts

Senior Vice-President
—Corporate Technical Services

Ellis Hughes

Vice-President—Group Manager
Transformer Plants

Colin A. A. MacPhee

Vice-President—Corporate
Research and Development

John E. Outram

Vice-President—Corporate
Quality Assurance

Ian K. P. Ross

Vice-President—Business
Development

Thomas J. Rowlands

Vice-President—Group Manager
Engineered Products Plants

Paul N. Taylor

Vice-President—Group Manager
Standard Products Plants

Peter T. Wicks

Vice-President—National
Sales Manager

Edward A. Atkinson

Comptroller and Assistant
Secretary

Corporate Information

Registered and Executive Office:

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Phone 416-752-8020
Telex 06 963724
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Parent Company:

Federal Pacific Electric Company
Raleigh, N.C., U.S.A.

Subsidiary Companies:

(both wholly-owned)

Federal Electric Limited
Wolverhampton, England

La Compagnie Électrique
Pioneer du Québec, Inc.
Granby, Quebec

Associated Company:

Fed-Supremetech Limited
Shatin, New Territories
Hong Kong—44% owned

Share Listing:

Common shares—The Toronto Stock
Exchange—symbol FPE

Registrars and Transfer Agents:

Common shares—National Trust
Company, Toronto and Montreal

6¾% secured sinking fund debentures,
Series A—The Canada Trust Company,
Toronto, Montreal,
Winnipeg and Vancouver

Trustees for the Debenture Holders:

The Canada Trust Company, Toronto

Auditors:

Price Waterhouse, Toronto

Bankers:

The Canadian Imperial Bank of Commerce,
Toronto and London, England

Si vous désirez recevoir ce rapport annuel
en français veuillez vous adresser à:

Le Secrétaire
La Cie Federal Pioneer Ltée
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